

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 2000

NOTE 16 – INCOME TAX REFUNDS AND TAX EXPENDITURES

A. Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits which are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax, home heating, and senior citizens' prescription drugs credits are the primary credits that fall into this category. Expenditures for these credits are recognized in the year the tax returns are filed and recipients claim the credits.

The following table shows the amounts of the various credits reported as General Fund "tax expenditures" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances (in millions).

Property tax credits:	
General homestead	\$ 235.5
Senior citizens	221.4
Farmland preservation	17.1
Other property tax credits	<u>10.7</u>
Subtotal – property tax credits	484.7
Home heating (excluding federal share)	1.4
Senior citizens' prescription drugs	<u>15.9</u>
Total tax expenditures	<u>\$ 502.1</u>

B. Income Tax Refunds Payable

The \$625.6 million reported as a General Fund liability on the "Income Tax Refunds Payable" line on the Combined Balance Sheet includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions; actual refunds made in October and November; and, accruals for known income tax litigation losses.